

**BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2019-64-WS**

Application of CUC, Inc. for Adjustment of Rates and Charges)
) **DIRECT TESTIMONY OF PATRICK W.**
) **PARKINSON**

1 **Q. Please state your name and address.**

2 A. My name is Patrick W. Parkinson and my home address is 22 Sugar Mill Drive,
3 Callawassie Island, S.C. 29909.

4 Q. Are you presently employed?

5 A. No, I am retired.

6 Q. Would you please give your educational background?

7 A. I graduated from Newark College of Engineering in June, 1968 with a B.S. degree in
8 Electrical Engineering. I also received an M.S. degree from Newark College of
9 Engineering in June, 1971.

10 **Q. Would you briefly describe your work background?**

11 A. Prior to my retirement I was the Executive Director of the Township of Middletown
12 Sewage Authority for 15 years. The Township of Middletown Sewage Authority located
13 in Middletown, N.J. has approximately 25,000 customers servicing almost 100,000
14 residents. At the end of my tenure as Executive Director the Authority had an annual
15 budget of approximately \$8,000,000 and an annual capital budget of \$1,000,000. During
16 my time as Executive Director I was able to reduce staffing by 15% and implement
17 several million dollars of cost savings resulting in one of the lowest customer service
18 rates in New Jersey. I also served as a Board Member of the New Jersey Association of

1 Environmental Authorities from 2001 through 2006. Finally, I served as a Board Member
2 of the New Jersey Utility Authorities Joint Insurance Fund from 1999 through 2012, and
3 as Chairman of that organization from 2006 through 2008.

4 **Q. On whose behalf are you providing testimony?**

5 A. I have been authorized to provide testimony on behalf of Callawassie Island Property
6 Owners Association, Inc. ("CIPOA") and Spring Island Property Owners Association
7 ("SIPOA"). I am a Board Member of the Callawassie Island Property Owners
8 Association, have served in that capacity for the past five years, and have served as
9 President for three of those years.

10 **Q. Are you a customer of CUC?**

11 A. Yes, I am a regular water customer, an irrigation customer and a sewer customer of CUC,
12 Inc. ("CUC" or the "Company").

13 **Q. Have you reviewed the application (with exhibits), and testimony filed by the**
14 **Company in this Docket?**

15 A. Yes. I have also reviewed the Company's annual reports filed with the Commission and
16 the South Carolina Office of Regulatory Staff (ORS), as well as information and
17 documents provided by the Company in response to our requests.

18 **Q. Please provide an overview of the Company.**

19 A. The Company is a small privately-owned family business located in Florence, South
20 Carolina. The Company operates a water and wastewater business on Callawassie Island
21 and Spring Island, and has an office located on Callawassie Island. The Company
22 purchases water from the Beaufort-Jasper Water and Sewage Authority ("BJWSA").

Q. What are your general concerns with the Application and the Company's operations?

A. As I will describe more particularly below, the Company's staffing has created unreasonably high overhead expenses- particularly in the areas of salary and benefits- that will only continue to increase unsustainably. This expense growth forms the basis of the Company's proposed 20% increase for water and proposed 24% increase for wastewater. If the Commission approves the Company's request, our residents will pay on average \$2,184 per year- the highest rates in the State of South Carolina. By contrast, BJWSA customers pay \$1,200 per year. As I describe below, appropriate staffing and expense allocation will result in a rate **reduction of 16%**, allowing a reasonable operating margin for the Company while considering the interests of customers.

Q. Do you have any comments concerning the company's 2018 test year revenues as shown in Exhibit D of the application?

A. Yes. The application states that "CUC, Inc. has experienced a marked decrease in revenues." This is not accurate. As shown in Exhibit D of the Company's Application, revenue has *increased* from \$1,135,448 in 2015 to \$1,277,065 in 2018 by \$141,617- which is a 12.5% increase.

In addition, the number of customers has increased as follows:

Type of Customer	2014	2019	Increase	% Increase
Water	1,241	1,294	53	4.3%
Wastewater	704	748	44	6.3%

1 **Q. Have you compared the number of employees the Company had at the time of its**
2 **last rate case to those it employs currently?**

3 A. Yes. As of the last rate case (2014), the Company had 8 employees: 2 officers, an
4 operations manager, 2 wastewater treatment plant (“WWTP”) managers, an office
5 manager, a utility worker, and an office assistant. As of the filing of this rate application,
6 the company has 9 employees, having added an additional office assistant. Four of these
7 employees (officers, and two office assistants) are located in Florence, while five (office
8 manager, operations manager, 2 WWTP managers, and a utility worker) are located on
9 Callawassie Island.

10 **Q. Do you have any comments concerning the company’s 2018 test year expenses as**
11 **shown in the Application?**

12 A. Yes. The Company has a problem controlling its expenses- particularly its salaries and
13 benefits expenses. Consider the following:

- 14 • Expenses rose from \$964,754 (2013 test year) to \$1,206,541 (2018 test year), an increase
15 of \$241,787 or 25%;
- 16 • Employee salaries increased from \$174,035 (2013) to \$269,582 (2018), an increase of
17 \$95,547 or 54.9%; and
- 18 • Employee benefits increased from \$162,072 (2014) to \$204,458 (2018), an increase of
19 \$42,416 or 26.2%.

20 **Q. Do you have any recommendations for the Commission regarding the Company’s**
21 **expenses?**

22 A: I would like to recommend several reductions be made in the expenses that CUC is
23 allowed to recover from ratepayers in order that the residents of our community do not

1 have to pay excessively high rates for water and sewage services. These
2 recommendations include eliminating certain employee positions and requiring employee
3 health insurance cost contributions.

4 **Q. Do you have any staffing recommendations?**

5 A. Yes. The following will allow the Company to provide the current level of services more
6 efficiently, by eliminating the Florence office and reflecting the fact that the operations of
7 the Company are conducted on and around Callawassie Island:

- 8 • Eliminate the officer/employee positions and transfer the responsibilities to existing
9 personnel. The annual savings, including benefits, will be \$280,154;
- 10 • Upgrade the Operations Manager position to General Manager at an annual salary
11 increase of \$30,000;
- 12 • Upgrade the Office Manager position to Director of Administration and
13 Finance at an annual salary increase of \$25,000, and have the Director of
14 Administration and Finance report to the General Manager;
- 15 • Eliminate both Office Assistant positions. The annual savings (including
16 benefits) will be \$75,950.

17 **Q. Please provide the justification for your staffing recommendations.**

18 A. Simply put, there is no reasonable business reason for the Company to maintain an office
19 in Florence and employ 4 administrative employees there. The vast amount of the
20 Company's administrative work (billing and collections) is currently done on Callawassie
21 Island. The Company could not provide information on how often its officers visit the
22 Callawassie Island office. Based on the contact I have had with these individuals, I would
23 estimate they visit Callawassie Island less than 5 times annually. I asked for an

1 opportunity to visit the Florence office to understand the work performed there, but the
 2 Company denied my request. The photographs of the Florence office provided by the
 3 Company only underscore the minimal functions performed there.

4 **Q. In your professional experience, does the Company have too many administrative**
 5 **employees?**

6 A. Yes. The Township of Middletown Sewage Authority (for which I was Executive
 7 Director) has five administrative employees for 25,000 customers, while CUC has five
 8 administrative employees for 1248 water customers and 748 sewer customers.

9 **Q. What other facts support eliminating the officer/employee positions?**

10 A. The officers of the Company earn salaries and benefits as employees, and any profits of
 11 the Company as its shareholders. This combination is a significant percentage of the total
 12 expenses of the Company, as shown in the below table:

Year	Profit	Officers' Salaries/Benefits	Total	% of Expenses
2015	\$117,720	\$265,901	\$383,621	38%
2016	\$138,150	\$273,878	\$412,028	37%
2017	\$91,526	\$282,087	\$373,613	30%
2018	\$70,526	\$280,154	\$350,680	28%
2019	\$50,000	\$288,559 est.	\$338,559	25% est.
2020	\$177,781	\$297,216 est.	\$474,997	33% est.

13 As shown in the above, the two Company officers would receive an estimated total of
 14 \$474,997 in 2020 if the proposed rate increase is approved. The total revenue in 2020 is

1 projected to be \$1,445,586. As a result, almost 33% of the Company's revenue would go
2 to two officers! It is simply not reasonable to place this burden on ratepayers.

3 **Q. What is your recommendation with respect to officers and employees contributing**
4 **to health care premiums?**

5 A. The Company should implement an employee health insurance contribution program
6 through which employees contribute 28% towards their health insurance premiums
7 versus the current 0% contribution. The annual savings will be \$27,775.

8 **Q. What effect would your recommendations have on the expenses of the Company?**

9 A. The total annual expense savings from the above recommendations is \$328,879.

10 **Q. How would the reductions in expenses you propose affect the Company's rate**
11 **request?**

12 A. If operating expenses are reduced by \$328,879, (from \$1,262,531), then the Company
13 will have total operating expenses of \$933,652. The Company has sought an operating
14 margin of 15.18%. Accordingly, the Company will require \$1,075,380 in revenues to
15 earn a 15.18% operating margin:

Revenue	\$1,075,380
Revised Expenses	\$933,652
Net Income for Margin	\$141,728
Operating Margin	15.18%

1 In turn, this amount of revenue will result in a rate reduction in the amount of \$201,685,
2 or **16%**.

3 **Q. Do you have any other recommendations for the Company?**

4 A. Yes. Implementing a Company website allowing electronic payments by customers
5 would also reduce expenses. Currently, if a resident is traveling and not in a position to
6 receive mail, they are threatened with a shut-off of their water service and delinquent fees
7 if they are late in making their payment.

8 **Q. Have you researched other water/wastewater rates being charged to residents in**
9 **other communities in your area?**

10 A. Yes. I have obtained rate information from South Island Public District (Hilton Head
11 Island), Hilton Head Island Public Service District, Broad Creek Public Service District
12 (Hilton Head Island), Fripp Island Public Service District, Moss Creek (Water Oak Co.),
13 and Beaufort Jasper Water and Sewer Authority. I have also obtained the rates from
14 Florence, S.C. where CUC, Inc. is headquartered. The attached **Exhibit One** presents this
15 information which clearly shows that if this proposed rate increase is approved our
16 residents would be paying 82% more than the average area rates.

17 **Q. Do you have any other observations regarding the Application?**

18 A. Yes.

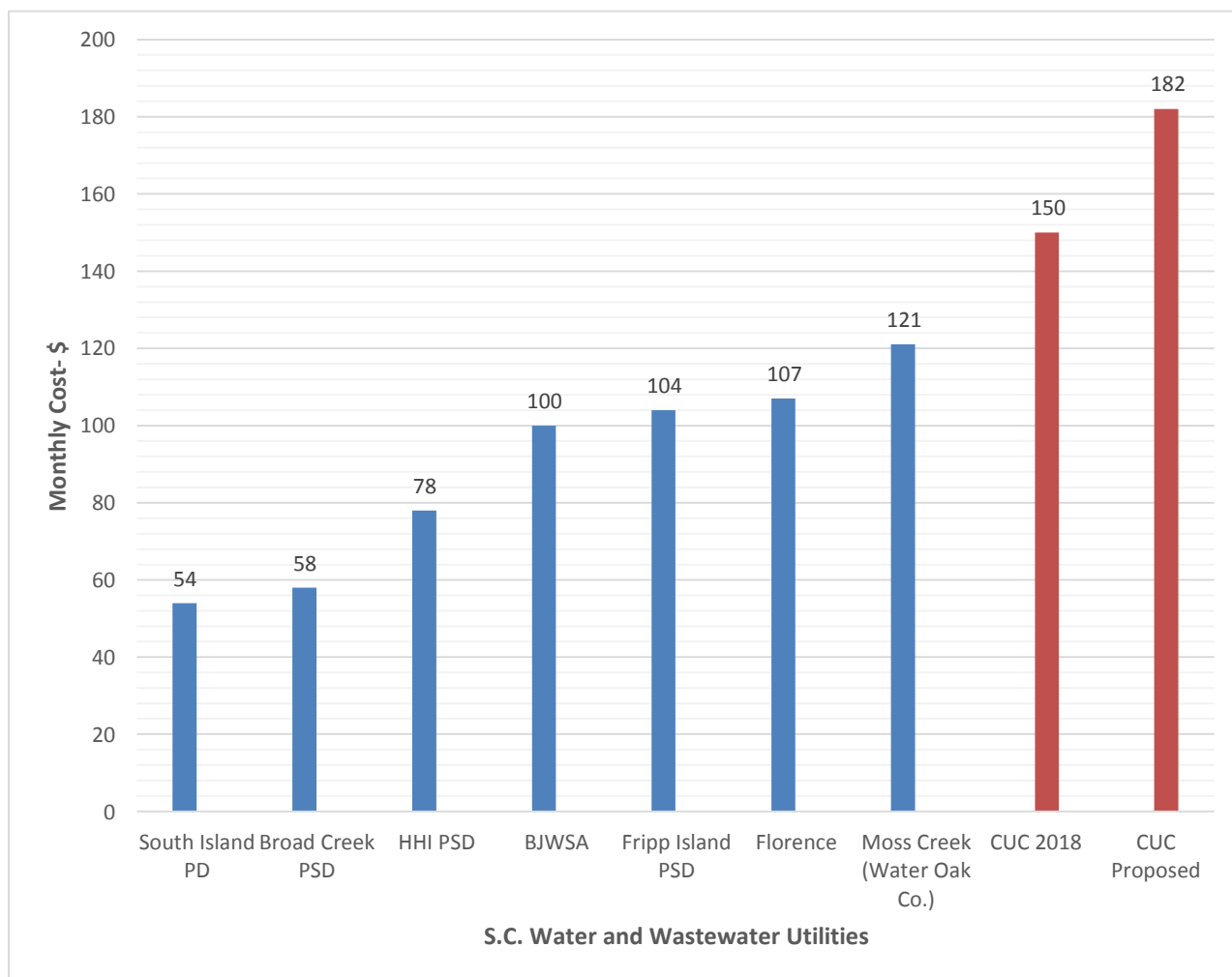
- 19 • The Company pays BJWSA \$2.70/1000 gallon for purchased water, and currently
20 charges our residents \$5.54/1000 gallon. The Company proposes to increase that charge
21 to \$6.63/1000 gallon. This would amount to charging residents 246% more than the
22 Company pays BJWSA for the water; and

- The excessive overhead costs should not be allowed to continue. Customers are not even given the names, phone numbers, or email addresses of the Florence, S.C. employees. My testimony has outlined how \$328,879 in customer savings can be achieved without an office in Florence.

Q. Does this conclude your testimony?

A. Yes, it does.

Exhibit One



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Application of CUC, Inc. for Adjustment)
of Rates and Charges)

This is to certify that I have served the **DIRECT TESTIMONY OF PATRICK W. PARKINSON** via electronic mail service as follows:

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November 5, 2019
Columbia, South Carolina